



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

December 27, 2005

TO: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **DEPARTMENT OF HEALTH SERVICES – COMMUNITY HEALTH PLAN
FINANCIAL AUDIT FOR YEARS ENDING JUNE 30, 2004 AND 2005**

Attached is a copy of the independent auditor's report on the Department of Health Services' Community Health Plan's (CHP) financial audit for the years ending June 30, 2004 and 2005, and the auditor's report on the CHP's internal controls. The audit was performed by Simpson & Simpson, Certified Public Accounts (Simpson).

California law requires the CHP and other managed care plans to submit annual financial statements that have been audited by an independent Certified Public Accountant to the State Department of Managed Health Care. The statements must be accompanied by an opinion on the fairness of the financial statement presentation. Simpson expressed an unqualified opinion of the fairness of the CHP's financial statements for the years ending June 30, 2004 and 2005. The CHP has submitted the report to the Department of Managed Health Care, as required.

Internal Control Findings

Simpson's report on the CHP's internal controls includes a material weakness related to the lack of integration between CHP's Patient Management System and their accounting software. This weakness has been reported in the past and continues to exist due to the need for an enhanced computer system.

Simpson's report also includes weaknesses related to the CHP's lack of controls over their ability to handle increased growth, retroactive adjustments to contracted providers, and missing Out-of-Plan Claim forms. These issues were discussed with CHP management. CHP management's responses are included in the internal control report.

"To Enrich Lives Through Effective and Caring Service"

Please call if you have any questions, or your staff can contact Jim Schneiderman at (626) 293-1101.

JTM:JLS:RL

Attachments

c: David E. Janssen, Chief Administrative Officer
Thomas L. Garthwaite, M.D., Director, DHS
Violet Varona-Lukens, Executive Office
Public Information Officer
Audit Committee

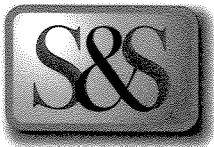
**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN**

**Financial Statements for the
Years Ended June 30, 2005 and 2004
with Independent Auditor's Report**



**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
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SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRAINARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors of
the County of Los Angeles

We have audited the accompanying balance sheets of the Los Angeles County Department of Health Services Community Health Plan (CHP) as of June 30, 2005 and 2004 and the related statements of income and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of CHP's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CHP as of June 30, 2005 and 2004 and the results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

Los Angeles, California
October 7, 2005

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Balance Sheets
June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash equivalents	\$ 40,058,490	\$ 96,881,706
Receivables (Note 3)	22,861,006	28,992,434
Amount due from Los Angeles County	-	38,035
Prepaid expenses	1,364,815	1,289,913
Total current assets	<u>64,284,311</u>	<u>127,202,088</u>
Noncurrent assets:		
Long-term investments	<u>303,636</u>	<u>303,636</u>
Total noncurrent assets	<u>303,636</u>	<u>303,636</u>
TOTAL ASSETS	\$ <u>64,587,947</u>	\$ <u>127,505,724</u>
LIABILITIES AND FUND BALANCES		
Current liabilities:		
Accrued capitation	\$ 21,418,786	\$ 27,529,535
Claims payable (Note 4)	7,256,663	9,907,805
Accounts payable	456,814	440,576
Accrued salaries and related benefits	2,176,890	1,585,974
Amount due to Los Angeles County (Note 5)	3,256,937	16,498,826
Other liability (Note 6)	79,350	1,391,300
Total current liabilities	<u>34,645,440</u>	<u>57,354,016</u>
Fund balances:		
Restricted	3,805,326	3,789,609
Unrestricted	26,137,181	66,362,099
Total fund balance	<u>29,942,507</u>	<u>70,151,708</u>
TOTAL LIABILITIES AND FUND BALANCE	\$ <u>64,587,947</u>	\$ <u>127,505,724</u>

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Income and Changes in Fund Balance
For the Years Ended June 30, 2005 and 2004**

REVENUES	<u>2005</u>	<u>2004</u>
Capitation premiums	\$ 200,168,967	\$ 198,597,342
OPERATING EXPENSES		
Cost of health care services:		
Capitation premiums	140,442,684	142,825,738
Medical services	7,098,678	14,757,080
Pharmacy	14,896,855	14,955,625
Medical supplies	1,598,602	1,647,201
Total cost of health care services	<u>164,036,819</u>	<u>174,185,644</u>
General and administrative:		
Salaries and employee benefits	11,893,115	8,969,434
Professional and consulting services	5,946,001	7,506,064
Rent	1,206,561	865,428
Office expense	1,634,579	354,427
Communications	342,418	362,196
Miscellaneous	153,956	61,371
Total general and administrative expenditures	<u>21,176,630</u>	<u>18,118,920</u>
Total operating expenses	<u>185,213,449</u>	<u>192,304,564</u>
OPERATING INCOME	14,955,518	6,292,778
OTHER REVENUES (EXPENSES)		
Interest income	735,281	1,359,647
Total other revenues (expenses)	<u>735,281</u>	<u>1,359,647</u>
Net income	15,690,799	7,652,425
Fund balance, beginning of year	70,151,708	62,499,283
Transfer to Los Angeles County	<u>(55,900,000)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 29,942,507</u>	<u>\$ 70,151,708</u>

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Statements of Cash Flows
For the Years Ended June 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 15,690,799	\$ 7,652,425
Adjustments to reconcile change in net assets to net cash Used by operating activities		
Changes in operating assets and liabilities:		
(Increase)/decrease in receivables	6,131,428	(2,210,485)
Decrease in amount due from Los Angeles County	38,035	61,101
(Increase)/decrease in prepaid expense	(74,902)	36,297
Decrease in accrued capitation	(6,110,749)	(354,713)
Decrease in claims payable	(2,651,142)	(7,607)
Increase in accounts payable	16,238	236,734
Increase in accrued salaries and related benefits	590,916	219,742
Decrease in amount due to Los Angeles County	(13,241,889)	(7,652,309)
Increase/(decrease) in other liability	(1,311,950)	440,345
Net cash used by operating activities	<u>(923,216)</u>	<u>(1,578,470)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfer to Los Angeles County	<u>(55,900,000)</u>	<u>-</u>
Net cash used by financing activities	<u>(55,900,000)</u>	<u>-</u>
Net decrease in cash equivalents	(56,823,216)	(1,578,470)
Balance, beginning of the year	<u>96,881,706</u>	<u>98,460,176</u>
Balance, end of the year	<u>\$ 40,058,490</u>	<u>\$ 96,881,706</u>

The accompanying notes are an integral part of these financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

The Community Health Plan (CHP) is a health maintenance organization (HMO) owned and operated by the Los Angeles County Department of Health Services (DHS). It is a federally qualified HMO and is licensed as a prepaid full service health care service plan by the State of California Department of Managed Health Care under the Knox-Keene Health Care Service Plan Act of 1975. CHP provides health care services at low or no cost through the State's Medi-Cal Managed Care and Healthy Families Program, the Los Angeles County's Temporary Employees Program and the Personal Assistance Services Council - Service Employees International Union (PASC-SEIU) Homecare Worker Health Care Plan.

Medi-Cal Managed Care

CHP is one of five Plan Partners contracting with L.A. Care Health Plan, the Local Initiative for Medi-Cal Managed Care in Los Angeles County. CHP has over 800 primary care physicians, over 600 pharmacies, including the chain of Rite-Aid stores, and more than a thousand specialists in the Medi-Cal provider network. Under the Medi-Cal program there is no cost to the member for covered services and no co-payments.

Healthy Families Program

CHP contracts with the State Managed Risk Medical Insurance Board (MRMIB) to participate as a Healthy Families Program provider. The Healthy Families Program provides comprehensive health, dental and vision coverage to children in families with incomes at or below 250% of the Federal Income Guidelines. Since the program began in 1998, Community Health Plan has been designated the Community Provider Plan for Los Angeles County for the provision of health coverage.

County's Temporary Employees Program

CHP provides managed health care services to certain long-term (continuously employed for one year or more), full-time, temporary employees of the County of Los Angeles. This coverage excludes physicians, and relief nurses receiving special cash compensation in lieu of employee benefits. Qualified Temporary County Employees have access to the same provider network as do the members enrolled under the Medi-Cal Managed Care Program.

PASC-SEIU Homecare Worker Health Care Plan

Effective April 1, 2002, the PASC-SEIU Homecare Worker Health Care Plan was implemented to provide health services to eligible In-Home Supportive Services (IHSS) Workers. The plan provides IHSS Workers access to a provider network comprised of Los Angeles County Department of Health Services facilities and contract providers.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As a managed health care organization, CHP derives the majority of its revenues from capitation premiums received for providing prepaid health services and prepares its financial statements in accordance with the AICPA Audit and Accounting Guide for "Health Care Organizations." The following is a summary of significant accounting policies used in the preparation of the accompanying consolidated financial statements. Such policies are in accordance with accounting principles generally accepted in the United States of America and have been consistently applied. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for each reporting period. The significant estimates made in the preparation of CHP's financial statements relate to the assessment of the carrying value of claims payable and contingent liabilities. While management believes that the carrying value of such assets and liabilities is adequate as of June 30, 2005 and 2004, actual results could differ from the estimates upon which the carrying values were based.

Basis of Presentation - Fund Accounting

The accounts of the County are organized on the basis of funds and account groups, each of which is a separate accounting entity. Each fund is accounted for through a separate set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. CHP is reported under an enterprise fund of the proprietary fund type of the County of Los Angeles. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost or expenses of providing goods and services to the public on a continuing basis be financed or recovered through user charges. All proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, CHP has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

Concentration of Source of Revenues

CHP received approximately 67% and 75% of its premium revenues under service agreements with L.A. Care Health Plan respectively for the fiscal years ended June 30, 2005 and 2004.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash Equivalents

Cash equivalents consist of CHP's equity portion of the Los Angeles County cash and investment pool. Funds received by CHP are deposited into the cash and investment pool for which the County Treasury is the depository. Funds deposited in the pool are similar in nature to demand deposits, (i.e., funds may be deposited and withdrawn at any time without prior notice or penalty). Interest earned on the pooled funds is accrued in a pooled interest apportionment fund and is allocated based on the average daily cash balances of the fund. The average annual interest rates earned on CHP's deposits during fiscal years ended June 30, 2005 and 2004 were approximately 2.12% and 1.36%, respectively. As of June 30, 2005 and 2004, substantially all investments in the County investment pool were U.S. government securities, bankers' acceptances and negotiable certificates of deposit.

Long-Term Investments

Long-term investments consist of restricted investments on deposit with the California Department of Managed Health Care (DMHC). These investments consist of U.S. Treasury securities, and due to their restricted nature, are classified as long-term without regard to contractual maturity. Market values approximate carrying values as of June 30, 2005 and 2004.

Claims Reimbursement Receivable

Claims reimbursement receivable are claims for capitated services paid by CHP that are reimbursable from the contracted medical groups and hospitals. Management believes that uncollectible amounts, if any, will not be material to the financial statements.

Accrued Capitation

CHP pays capitation premiums to the contracted medical groups and hospitals in arrears on a per member per month basis. Accrued capitation consists of capitation payments due the contracted medical groups and hospitals.

Claims Payable

The liability for claims payable includes adjudicated claims, claims pending adjudication and a provision for incurred but not reported claims. The amount payable for the claims pending adjudication is reduced by an allowance for denied claims estimated based on paid/denied ratio of claims closed during the year. The provision for incurred but not reported claims is estimated using a lag study based upon historical data including the period between the date services are rendered and the date claims are received and paid and denied claim activity. The estimate for incurred but not reported claims is made on an accrual basis and adjusted in future periods as required.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims and losses paid are dependent on future developments, management is of the opinion that the recorded reserves are adequate to cover such costs. These liabilities are reduced by estimated amounts recoverable from contracted health care providers.

Fund Balance

Fund balances are reported as restricted when constraints placed on its use are either: (1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments, or (2) imposed by law through constitutional provisions or enabling legislation. CHP's restricted fund balance consists of the amounts required to satisfy the deposit and tangible net equity requirements of the Department of Managed Health Care as of June 30, 2005 and 2004 (see Note 9).

Premium Revenues

CHP's premium revenues are capitation payments received for plan enrollees on a per member per month basis. Premiums are recognized as revenue in the month in which the members are entitled to service.

Cost of Health Care Services

CHP contracts with various medical groups to provide professional care to its members on a capitated, or fixed per member per month fee basis. Capitation contracts generally include a provision for non-capitated services for which CHP is liable. Additionally, CHP contracts with certain hospitals to provide hospital care to enrolled members on a capitation and/or fee for service basis.

The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services which have been incurred but not yet reported. Such costs include capitation payments to contracted medical groups and hospitals for primary care, specialty and hospital services and the cost of non-capitated medical services, pharmacy and medical supplies.

Fair Value of Financial Instruments

The estimated fair value amounts of cash equivalents and long-term investments approximate their carrying amounts in the financial statements and have been determined by CHP using available market information and appropriate valuation methodologies. The carrying amounts of cash equivalents approximate fair value due to the similar in its nature to demand deposits. The fair values of long-investments are estimated based on quoted market prices and dealer quotes for similar investments term.

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax

As an operating division of the County, CHP is exempt from State and Federal income taxes.

NOTE 3 – RECEIVABLES

Receivables are comprised of interest receivable, capitation premiums receivable and claims reimbursement receivable from health care service providers. As of June 30, 2005 and 2004, receivables consisted of the following:

	<u>2005</u>	<u>2004</u>
Capitation premiums receivable	\$ 12,709,900	\$ 16,184,169
Claims reimbursement receivable	9,940,052	12,542,733
Interest receivable	211,054	265,532
	<u>\$ 22,861,006</u>	<u>\$ 28,992,434</u>

NOTE 4 – CLAIMS PAYABLE

Claims payable are comprised of claims payable or pending adjudication and a liability for claims incurred but not yet received, reduced by management's estimate of the amount that will be denied and the amount that will be recoverable from contracted providers. As of June 30, 2005 and 2004, claims payable consisted of the following:

	<u>2005</u>	<u>2004</u>
Claims payable/pending adjudication	\$ 10,181,077	\$ 8,189,462
Claims incurred but not received	5,634,505	6,823,303
Claims payable	263,040	721,732
Less: Allowance for denied claims	<u>(8,821,959)</u>	<u>(5,826,692)</u>
	<u>\$ 7,256,663</u>	<u>\$ 9,907,805</u>

NOTE 5 – AMOUNT DUE TO LOS ANGELES COUNTY

Cash disbursements for CHP are made from the general fund of Los Angeles County Department of Health Services (DHS). CHP transfers funds periodically to the general fund from its County cash and investment pool to reimburse the general fund or to fund its projected cash disbursements. The amount due to Los Angeles County consists of the amount owed to the DHS general fund and the amount due other County funds for services such as telephone, rent and information system support. As of June 30, 2005 and 2004, the amount due to Los Angeles County consisted of the following:

These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 5 – AMOUNT DUE TO LOS ANGELES COUNTY (Continued)

	<u>2005</u>	<u>2004</u>
Amount due to DHS general fund	\$ -	\$ 1,851,644
Amount due to Los Angeles County funds	3,256,937	14,647,182
	<u>\$ 3,256,937</u>	<u>\$ 16,498,826</u>

NOTE 6 – OTHER LIABILITY

Other liability includes the amount due to L.A. Care for excess capitation received from L.A. Care for the period October 1, 2002 through June 30, 2005, which was \$79,350 and \$1,391,300 respectively as of June 30, 2005 and 2004.

NOTE 7 – TRANSFER TO LOS ANGELES COUNTY– HEALTH SERVICE ADMINISTRATION GENERAL FUND

During the fiscal year ended June 30, 2005, CHP transferred \$55,900,000 of its equity/excess reserves in the form of a cash distribution to Los Angeles County – Health Service Administration General Fund. Based on opinions of L.A. County legal counsel, there are no legal restrictions related to how the excess reserves of a health plan are used as long as the health plan maintains a minimum amount of excess reserves or tangible net equity required by Section 1300.76 of the California Code of Regulations.

NOTE 8 – RETIREMENT PLAN

The County's retirement plan covers CHP employees and provides for monthly pension payments to eligible employees upon retirement. Salaries and employee benefits expense includes a provision for the retirement plan cost, as well as vacation and sick pay, which is estimated based on a percentage of salaries expense. The actual cost of the retirement plan, actuarial present value of accumulated retirement plan benefits, and net assets available for retirement plan benefits are not separately identifiable for CHP.

NOTE 9 – CONTINGENCIES

The County has agreed to fund CHP losses, if any, and to cover CHP under its self-insured medical malpractice program when medical services are provided at a County facility. In addition, the County has agreed to cover CHP under its self-insured workers' compensation program. These coverages are provided to CHP at no cost.

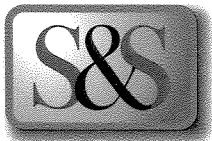
These notes are an integral part of the preceding financial statements.

**LOS ANGELES COUNTY
DEPARTMENT OF HEALTH SERVICES
COMMUNITY HEALTH PLAN
Notes to Financial Statements
For the Years Ended June 30, 2005 and 2004**

NOTE 10 – REGULATORY REQUIREMENTS

CHP, as a California licensed health service plan, is regulated by the State of California Department of Managed Health Care (DMHC). Title 28 of the Code of California Regulations requires that CHP maintain certain deposits assigned to the Director of the DMHC and comply with certain minimal capital or tangible net equity requirements. Management believes that as of June 30, 2005 and 2004, CHP met its regulatory requirements.

These notes are an integral part of the preceding financial statements.



SIMPSON & SIMPSON
CERTIFIED PUBLIC ACCOUNTANTS

FOUNDING PARTNERS
BRINARD C. SIMPSON, CPA
CARL P. SIMPSON, CPA

3600 WILSHIRE BOULEVARD, SUITE 1710
LOS ANGELES, CA 90010
(213) 736-6664 TELEPHONE
(213) 736-6692 FAX
www.simpsonandsimpsoncpas.com

December 9, 2005, 2005

To the Board of Supervisors of
the County of Los Angeles

Dear Board Members:

In planning and performing our audit of the financial statements of the Community Health Plan (CHP) for the year ended June 30, 2005 (on which we have issued our report dated October 7, 2005), we considered the internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements of CHP and not to provide assurance on the internal control structure. Such consideration would not disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe Observations #1 to be a material weakness.

We have noted other matters relating to the internal control structure and certain other accounting, administrative, or operating matters. Our observations and recommendations are presented in Exhibit I. We have not performed any substantive auditing procedures subsequent to October 7, 2005, accordingly, this report is based on our knowledge as of such date and should be read with that understanding.

Sincerely,



The CPA. Never Underestimate The Value.™

Observation #1 – Deficiencies in the accounting system and Patient Management System

Condition

CHP's Patient Management System (PMS), the system for tracking claims, does not integrate with CHP's accounting software. Accounting staff generates various claims status reports from PMS and makes monthly summarized accounting journal entries in the accounting system based on the amounts from the reports. However, the PMS system is antiquated and extracting information from the system requires much programming effort. Errors made in the programming of the reports may lead to the recording of inaccurate information into the accounting system.

Recommendation

CHP should use a fully integrated software program that meets its needs. Such a system will reduce the risk of human data entry errors, provide a better audit trail for transactions, and allow for better analysis of accounts.

CHP Response

The CHP agrees with the recommendation.

CHP is proceeding with work on a Request for Proposals for a replacement to the existing managed care information system (MCIS). The decision to replace the system was deferred until more was known in relation to the effect of changes related to Medi-Cal Redesign, the terms of the new Medi-Cal Waiver, and how managed care may fit in the Departmental strategic plans.

Although the County implemented the new eCAPS system on July 1, 2005, CHP needs to continue to enter claims payment data into QuickBooks in order to produce financial reports. Neither the existing MCIS or eCAPS produces the required regulatory reporting formats without additional data downloading, system interfaces and system programming.

Observation #2 – Ability to handle increased growth

Condition

The infrastructure, personnel, internal controls and current computer systems (administrative capacity) in place at the CHP may not be able to keep up with the projected growth of CHP. Many of the processes of CHP are manually intensive, e.g. calculation of capitation and IBNR.

Recommendation

CHP needs to automate its manual intensive processes as quickly as possible in order to remain competitive in the managed care market and handle the projected growth of the plan.

Observation #2 – Ability to handle increased growth (Continued)

CHP Response

The CHP agrees with this recommendation.

The CHP worked closely with the County Auditor-Controller to interface the existing MCIS with eCAPS to produce automated provider payments. Payment Vouchers, excluding IHSS, are now automatically updated into CHPs accounting system. Also, as of August 1, 2005, the CHP engaged a claims scanning firm, Lason, to scan Out-of-Plan provider claims to vastly reduce the labor intensive process of manual data entry of claims. The CHP continues to look for additional ways to automate routine functions. Additionally, many manual functions will be automated through the implementation of a new MCIS.

Observation #3 – Retroactive adjustments not made to contracted providers

Condition

CHP receives retroactive adjustments in capitation for supplemental enrollments and disenrollments of members for the previous month. However, CHP has not passed on the retroactive adjustments to the CHP capitated providers due to inherent limitations in its existing information system. Total liability to the capitated providers related to retroactive adjustments amounted to approximately \$3.1 million and \$2.3 million as of June 30, 2005 and June 30, 2004, respectively.

Recommendation

We recommend that CHP develop and implement changes to its existing information system to enable it to pass on the retroactive adjustments to the appropriate network providers.

CHP Response

The CHP agrees with this recommendation.

CHP staff have worked diligently to identify the amounts payable to capitated providers for both the special Orthopedic Settlement retroactive payments and normal capitation retroactivity. The Orthopedic Settlement amounts have been determined as of November 15, 2005 and letters have been prepared for the providers to alert them of the amounts due.

As previously noted in our June 15, 2005 update, CHP estimates that it will take until December 2006 to complete reconciliation of the retroactivity related to normal capitation payments for the months of May 1997 to June 2004, while also fixing and maintaining retroactive enrollments and dis-enrollments files pertaining to the current Fiscal Year.

Observation #3 – Retroactive adjustments not made to contracted providers (Continued)

The delay in this project is due to a lack of a functional managed care information system. Due to the current systems constraints and limitations, CHP has to build a capitation module outside of PMS using MS Access databases, with all the supporting tables (containing contract rates, member assignments and reassignments, etcetera) that would normally exist in a fully integrated software program.

Observation #4 – Missing Out-of-Plan Claim Forms

Condition

CHP cannot locate five (5) out of the first sixty (60) claim forms that we selected for testing and five (5) out of the additional twenty (20) claim forms we requested.

Recommendation

We recommend that CHP develop and implement policies and procedures to ascertain that all claim forms are properly maintained.

CHP Response

The CHP agrees with this recommendation and corrected this condition on August 1, 2005.

As noted in our response to Observation #2 above, all claims received by the CHP are converted into an electronic image and maintained in a secure environment to ensure that they will be readily available for review and/or audit. CHP will no longer need to maintain hard copies of these records.